

State Board of Equalization
OPERATIONS MEMO
For Public Release

No.: 1187
Date: January 24, 2013

SUBJECT: Quarter Percent State Sales and Use Tax Rate Increase

I. GENERAL

Proposition 30 added Section 36, Article XIII, to the State Constitution temporarily increasing the state sales and use tax rate by 0.25 percent. Accordingly, the state portion of the statewide sales and use tax increases to 6.50 percent and the new statewide sales and use tax rate is 7.50 percent. This amount does not include district taxes imposed by local jurisdictions. The temporary 0.25 percent sales and use tax increase is effective January 1, 2013 through December 31, 2016.

II. ADD-ON CODE

Add-on code 908—SCHL (State's Education Protection Account) will be used for the additional 0.25 percent sales and use tax imposed by Section 36, Article XIII, State Constitution.

III. NOTICE TO TAXPAYERS

A Special Notice regarding the 0.25 percent statewide sales and use tax rate increase was mailed to all active sales and use tax permit holders who do not have email addresses on file. Active sales and use tax permit holders with email addresses on file received an email that referred them to the Special Notice on our website. The email was also sent to tax practitioners and enrolled agents. A new webpage was created for direct and easy access to all information about the tax increase. The new webpage can be accessed at www.boe.ca.gov/rateincrease.

IV. REVISIONS TO SALES AND USE TAX RETURN FORMS

Since the state tax increase is effective at the beginning of a quarterly reporting period, the changes will have minimal impact on returns for monthly, quarterly, or yearly filers. Fiscal yearly and special reporting basis filers will be required to file a return with split periods.

Paper returns will be distributed on schedule. However, returns for special and early monthly filers received between January 1, 2013 and February 10, 2013 cannot be entered into IRIS until February 11, 2013.

Efilers with reporting due dates of January 1, 2013 through February 10, 2013 will not be able to efile their returns until February 11, 2013 when the quarter percent increase has been programmed into IRIS. Seventeen (17) accounts were identified that have a filing period within this time frame. Those taxpayers have been called and notified that their due dates have been extended, and if they file on February 11, 2013, no penalty or interest will be assessed. Additionally, monthly filers who try to file early (prior to February 11th) will not be able to

access their reporting period. Pop-up messages will appear on the efile system for these taxpayers if they try to file for those periods before the system is open on February 11, 2013.

The BOE-401-ASR, *State, Local, and District Sales and Use Tax Split Rate Return*, has been revised to handle split periods for the BOE-401-A and the BOE-401-GS returns.

The BOE-401-EZSR, *Short Form - Sales and Use Tax Split Rate Easy Return*, has also been revised for use by taxpayers eligible to file the BOE-401-EZ, Short Form - Sales and Use Tax.

Additionally, the BOE-401-ESR, *State, Local, and District Consumer Use Tax Split Rate Return*, has been revised and is available for Consumer Use Tax filers with a split rate return.

V. REVISIONS TO OTHER SALES AND USE TAX DOCUMENTS AND WEBPAGES

Compliance and audit forms have been revised and are available on eBOE and may also be distributed to users upon receipt of new stock. Affected publications are being revised. Additionally, eBOE and public website pages that refer to the tax rate have been revised to reflect the increase as appropriate.

VI. EXEMPTIONS

Revenue and Taxation Code (RTC) sections 6356.5 (farm equipment and machinery), 6356.6 (timber harvesting equipment), 6358.5 (racehorse breeding stock), and 6378 (property used in teleproduction and postproduction activities) provide partial exemptions from state sales and use taxes. As of January 1, 2013, the partial exemptions increase to 5.50 percent.

For RTC section 6357.1 (diesel fuel; farming business), the partial exemption increases to 7.67 percent on January 1, 2013 and will be in effect through June 30, 2013, at which time the exemption is scheduled to decrease to 7.44 percent due to changes in the tax rate for sales of diesel fuel.

Fixed-price contracts or fixed-price taxable lease agreements are not exempt from the 0.25 percent tax rate increase. Consequently, the 0.25 percent tax increase will apply to fixed-price contracts and taxable lease agreements, including most leases of vehicles.

For leases of equipment that qualify as mobile transportation equipment (MTE) under Regulation 1661, where a timely election is made to report tax on the fair rental value and the MTE is first leased on or before January 1, 2013, lessors must pay tax at the rate in effect at the time the equipment was first leased. The 0.25 percent state tax increase will not apply and the tax rate will remain the same for all periods during which the equipment is leased, including the periods during the first lease of the equipment and all periods during any subsequent leases of the equipment by the original purchaser.

Sales and Use Tax Regulations 1525.7, 1532, 1533.1, 1533.2, 1534, and 1535 are being revised.

VII. CHANGES TO AUDIT WORKPAPERS

A. BOE-414-M, *Transcript of Returns Filed*

In the downloaded transcripts of returns, the column labeled STATX will include the SCHL tax reported.

Transcripts that include returns filed on a fiscal yearly or special reporting basis *will not* separately state the reported taxable measure for SCHL during the split period.

Split period information may be obtained by reviewing the taxpayer's returns or by accessing the returns through the efile system if they were filed electronically.

B. BOE-414-A, *Report of Field Audit*, and BOE-414-B, *Field Billing Order*

Page one of the report will have a separate column under "Taxable Measure Disclosed by Examination of Taxpayer's Records" labeled "0.25% State Increase."

On the Sales Tax Calculation Summary Page, the new tax will be identified as "0.25% State Increase" under "Jurisdiction" and as "SCHL" in the "Breakdown of Jurisdictions" section.

C. Start 21

Use jurisdiction code 908—*SCHL* to upload measure subject to the 0.25 percent tax increase.

VIII. IRIS

Returns filed on a yearly, fiscal, or special reporting basis will only show the reported taxable measure for the full year on all IRIS screens. Staff will need to obtain correct SCHL reported taxable measure from the taxpayer using copies of the taxpayer's return forms, if filed by paper return, or the efile system if the applicable returns were electronically filed.

IX. OBSOLESCENCE

This Operations Memo will become obsolete when the information contained herein is incorporated into the Business Taxes Law Guide, the Business Taxes Code Book, the Audit Manual, and the Compliance Policy and Procedures Manual.



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